

CITY OF AIRWAY HEIGHTS
Spokane County, Washington
January 1, 1994 Through December 31, 1995

Schedule Of Findings

1. The City Should Improve Internal Controls Over Cash Receipts

During our audit of the city's \$129,000 miscellaneous (non-utility) cash receipting internal control system, we noted the following weaknesses:

- a. Access to the cash box was not sufficiently restricted. Since several employees collected money using the same cash box, responsibility for these funds cannot be fixed.
- b. Independent reconciliations of the composition of receipts to deposits were not performed.
- c. The city's change fund, petty cash fund, and funds used to cash personal checks were commingled which corrupted the cash and check composition. This information is essential to preventing and detecting a common technique used to steal funds.
- d. Personal (employee) checks were not deposited in a timely manner. Our cash count revealed \$25 in personal checks that were 3-6 months old.
- e. All copies of voided receipts were not maintained.
- f. Business licenses, animal licenses, permits, and citations were not pre-numbered nor independently reconciled to receipts. As a result, we could not determine if all amounts collected from these sources were deposited for the benefit of the city.
- g. City policies regarding delinquencies and penalties over business licenses, animal licenses, and permits were unclear. In addition, penalties were assessed at the staff's discretion.
- h. Unused permits were not adequately safeguarded. They were maintained in an unlocked file cabinet.
- i. Receipts were not immediately issued. The building and codes department was collecting permit payments without receipting and then forwarding them to city hall.

City management did not implement basic internal controls over the cash receipting system.

Weaknesses in the cash receipting internal control system result in decreased accountability over cash receipts and an increased risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend the city strengthen internal controls over the cash receipting system in the following ways:

- a. Restrict access to the cash box.
- b. Perform independent reconciliations of the composition noted on receipts and deposits.
- c. Establish a separate change fund, petty cash fund, and funds used to cash personal checks. Periodically review and reconcile these distinct funds.
- d. Deposit personal checks in a timely manner.
- e. Maintain all copies of voided receipts.
- f. Pre-number, safeguard and independently reconcile business licenses, animal licenses, permits, and citations to receipts.
- g. Review and revise city policies regarding delinquencies and penalties over business licenses, animal licenses, and permits. Assess all penalties when they are due. Segregate the responsibilities concerning the collection of funds and the reduction of penalties.
- h. Issue receipts immediately upon the collection of funds.

Auditee's Response

We have corrected these issues.

2. The City Should Improve Internal Controls Over The Utility Billing System

Our audit of the city's \$633,000 utility billing system revealed the following internal control weakness:

- a. There was a lack of segregation of duties. The billing clerk billed, collected, posted, deposited, and made adjustments without management oversight.
- b. Although the city did not have policies on payment arrangements or the waiving of late fees, this was regularly done for both city employees and other utility customers.

- c. Due to an error in the utility billing software, some customers were undercharged. The city has not recalculated the charges or pursued collection on these accounts.
- d. Independent reconciliations of water installations and sewer hook ups to fees collected were not performed.

City management did not implement adequate internal controls over the utility billing system.

Weaknesses in the utility billing internal control system increase the risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend the city improve internal controls over the utility billing system in the following ways:

- a. Either segregate the collection and accounting functions within the utility billing system or provide management oversight to lessen the impact of the lack of segregation of duties. For management oversight to be effective, an employee independent of the utility billing system should reconcile the utility control account to subsidiary ledgers and perform periodic audits of utility records.
- b. Implement policies and procedures regarding payment arrangements and the waiving of late fees. Segregate collection responsibilities and the decision to waive late fees.
- c. Assess and pursue collection on all amounts owed the city.
- d. Perform independent reconciliations of water installations and sewer hook ups to fees collected.

Auditee's Response

We have purchased new computer software and implemented new procedures as of January 1, 1995. These items have been corrected.

3. The City Should Improve Internal Controls Over Contracts With The West Plains Service And Development Association

Per review of the city's 1994 and 1995 contracts with West Plains Service and Development Association, a non-profit organization, the following internal control weaknesses were noted:

- a. Council agreed to pay the community center \$20,000 per year to provide educational, recreational, and social services within the city and \$2,400 per year to provide management of a recreation program for the city. However, the city paid the community center another \$9,449, over the two-year period, for recreational supplies, additional salaries and wages, and recreation ASC fees which did not appear to be contracted for or have council's approval.
- b. The \$2,400 contract is ambiguous as to what additional recreational services are

being provided above and beyond the \$20,000 contract. Both contracts appear to be for the same recreational services and may, therefore, result in double payments for the same activities.

- c. Contracts did not include provisions for periodic monitoring nor was any monitoring performed by the city. The city could not prove that payments made to the community center were used to meet contractual requirements.
- d. Although council agreed to lease the premises to the community center, neither the city nor the community center could locate a signed agreement. The term of the lease was allegedly 49 years, from 1989 through 2038, with rent of \$1 per year.
- e. In 1995, the community center retained an additional \$516 in ballpark revenue that should have been deposited with the city as the community center did not have contractual right to those revenues. The director of the community center stated that the funds were used for recreation programs.

Converting public funds for private use may represent a gift of public funds.

The Washington State Constitution, Article VIII, Section 7 states:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

City management was slow to revise their contracts with the West Plains Service and Development Association.

The ambiguity and the failure to monitor contracts with the community center result in a decreased accountability over public expenditures and an increased risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend the city review its contracts with the community center and implement internal controls as follows:

- a. Clarify contracts with regard to services being provided, authorized programs, required supporting documentation, and monitoring.
- b. Perform periodic monitoring of the community centers activities and records.
- c. Implement policies and procedures regarding ballpark revenue. Seek reimbursement of the \$516.

Auditee's Response

All issues have been corrected and new contracts are in place. The city no longer contracts for recreational services.

Auditor's Concluding Remarks

We appreciate the city's response to our audit findings. It appears that the concerns noted in these findings are being adequately addressed. We will review the city's progress in these areas during our next regularly scheduled audit.

We also wish to thank the city's officials and personnel for their assistance and cooperation during our audit.